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C O N F I D E N T I A L SECTION 01 OF 02 TEL AVIV 006617

SIPDIS

E.O. 12958: DECL: 11/21/2015

TAGS: [ENRG](#) [ECON](#) [PREL](#) [IS](#) [EG](#) [GOI](#) [EXTERNAL](#) [ECONOMY](#) [AND](#) [FINANCE](#)

SUBJECT: BUSINESSMAN DISCUSSES EGYPTIAN-ISRAELI GAS DEAL  
AND POSSIBLE FUTURE PROJECTS

Classified By: Ambassador Richard H. Jones for reasons 1.4 (B) and (D).

1. (C) Summary: According to Nimrod Novik, the senior vice president of the Merhav Group, "all systems are go" for the export of USD 2.5 billion worth of Egyptian natural gas to Israel over the next two decades. Novik, whose company is the Israeli partner in the deal, noted that the Egyptians had been sensitive to any Israeli control of assets, especially in the Sinai. He denied reports that Israel would transship gas to Turkey, saying the idea had been broached publicly to provide Egypt with political cover for the deal, and advocated development of the small gas deposit off Gaza for Palestinian use. Novik also discussed the possibility of joint Israeli-Egyptian power plant and desalination projects in the Sinai. End summary.

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Details of Israeli-Egyptian Gas Deal  
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2. (C) Novik told the Ambassador that after a 30-month delay during the Intifada, "all systems are go" for the export of USD 2.5 billion dollars worth of Egyptian gas to Israel. He claimed that Merhav had secured "the best price in the world," because the terms for the 20-year deal had been set years ago when gas was much cheaper. Novik noted that the Egyptians are particularly sensitive to any appearance that Israelis own property or investments in the Sinai. They had insisted that Egyptian subsidiaries hold title to land that Merhav required for its pipelines from El-Arish. While the Merhav Group has 30 percent of the equity and property, Novik said its official share of the project is limited to 25 percent to ensure that the Israeli company does not have voting rights.

3. (C) Novik claimed that Merhav's main customer, the Israel Electric Corporation, would prefer to have access to the gas immediately, but must wait until the third quarter of 2007 due to an inadequate and incomplete system of pipelines in Israel. The Ambassador asked about reports that Merhav would transship excess gas to Turkey or western Europe. Novik admitted that the quantities Merhav has the right to purchase far exceed current domestic Israeli requirements. Nonetheless, he called the Turkish option unrealistic, describing it as an attempt to provide Egypt with political cover for exports to Israel.

4. (C) Novik also said that the Palestinian areas do not figure in Merhav's calculation for the gas deal. He added that the small gas deposit off Gaza is sufficient to fill Palestinian needs for the next 15 years. He claimed that British Gas had mishandled its initial attempt to develop the field, choosing one of Arafat's cronies for their partner. Maintaining competition would be good for the Israeli market, Novik said he had spoken to PA Finance Minister Salam Fayyad and urged him to move the project forward.

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Possible Power and Desal Plants in the Sinai  
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5. (C) The Ambassador asked about reports that Merhav and its Egyptian partners are negotiating to build a power plant in El-Arish. Novik confirmed that this idea -- which he claimed stems from talks at Camp David during Barak's term in office and discussions between PM Ariel Sharon and President Hosni Mubarak at Sharm El-Sheikh -- is still a possibility. He noted that a 1,200-megawatt plant in El-Arish would have ready access to Egyptian gas. It could supply power to the Sinai, Palestinian areas, southern Israel and Jordan, and could be coupled with a new desalination plant in the same area with a huge capacity of 1,000 million cubic meters per year.

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Experience with Refinery Project Helped Seal Gas Deal  
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6. (C) Novik recounted Merhav's experience with Egyptian partners in constructing an oil refinery in Alexandria in the 1990s, lamenting that "I had hoped the refinery would be a precedent; it turned out to be a fig leaf." In a process that Novik described as being "kicked out with glory," the Egyptians had paid a generous price to buy out the Israeli shares in 2000-2001, making it clear that they did not want

Israelis to own any Egyptian assets. Nevertheless, Novik maintained that the cooperation established on the refinery project helped overcome initial Egyptian uneasiness about a gas deal.

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